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RESERVE BANK



NEW ZEALAND

WELLINGTON, N.Z.

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NOVEMBER • 1951

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NOTE: Where figures are given to a certain degree of approximation the total shown may not be the same as the sum of the items.

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# Foreign Exchange

## X - INTERNATIONAL CAPITAL MOVEMENTS

IN DISCUSSIONS OF THE BALANCE of international transactions a distinction is usually made between "current" and "capital" items. A "current" transaction is one in which money is transferred in exchange for goods or services rendered; or one which is of a unilateral nature (e.g., gifts, donations, pensions, legacies, etc.) where no goods change hands and no services are rendered, but no debt results. "Capital" transactions are those which bring about a change in international indebtedness, whether on government or private account. A country which receives a capital remittance incurs an obligation to repay; the capital-exporting country acquires an asset abroad in the form of property, or securities or some other right to repayment. Capital movements also include repayment of previous borrowings. Thus every international capital transaction results in a change in the pattern of international assets and liabilities.

The borrowers and lenders concerned might be governments or local bodies, business firms, banks, international organisations, or individuals. In recent years governments and international organisations have played a much greater part than previously.

The methods by which capital movements can take place are many. For example, governments may lend to each other by means of cash transfers, with or without specifying in what country or for what purpose the funds might be spent; or they may supply goods and services to each other and claim payment later; or one government may raise a public loan by issuing securities in a foreign market. A company may lend to a subsidiary company abroad by transferring cash, or by supplying machinery, equipment, trade secrets, or technical staff receiving in exchange share capital or debentures. Individuals or companies may buy securities or property in a foreign country, or may merely acquire a cash balance in foreign currency. If, for example, a person migrates from Australia to New Zealand and retains ownership of property in Australia, New Zealand will thereby have acquired an overseas asset.

Some of the capital movements mentioned above (the list is not exhaustive) involve banking transactions in the form of purchases and sales of foreign currency through the banking system, and in New Zealand these are recorded in the analysis of foreign exchange transactions published by the Reserve Bank. In these tables (see the "Bulletin" for February and August, 1951) capital receipts are divided into:-

- (a) those which increase New Zealand's external liabilities (i.e., overseas borrowing); and
- (b) those which reduce New Zealand's external assets (i.e., proceeds of sale of overseas property or securities, or repatriation of cash balances).

Similarly, capital payments are divided into-

- (a) those which decrease New Zealand's external liabilities (i.e., repayment of debts due overseas); and
- (b) those which increase New Zealand's external assets (i.e., acquisition of property or securities in overseas countries).

It should be noted that these changes in external assets and liabilities do not relate to those of the banking system, which in fact show offsetting changes. For example, if a New Zealand resident purchases sterling from a local bank in order to repay a debt due in the United Kingdom, private overseas liabilities are thereby reduced, but the sterling assets of the bank are similarly reduced.

Those international capital movements which do not involve dealings in foreign currency by the banking system are more difficult to ascertain and are not covered by the Reserve Bank's analysis. However, the Government Statistician has recently begun an inquiry into these transactions, the first published results of which are summarised in the article following.

To a country which is importing capital, international investment provides funds or goods (or both) which have not had to be earned by way of exports, and additional means are thus available for the development of resources and industries. Normally the result should be beneficial to the recipient country and should enable it to meet the necessary interest payments and the eventual repayment of the initial investment. To the capital-exporting country there is a net drain on its resources, as goods and services are in effect being provided to other countries without any compensating goods or services being received until considerably later. Thus a country cannot afford to allow capital export unless its balance of payments position is healthy with a tendency to a surplus of receipts over payments. For a country whose balance of payments is in chronic deficit, especially in relation to hard currencies, controls are usually applied to outward movements of capital.

The flow of long-term capital is normally from the more highly developed and industrialised countries to those which are relatively undeveloped, or from one developed country to another. Short-term capital movements, however, are more irregular, and in some periods have been a disturbing factor in international finance. What is usually called "hot money" has moved in large amounts from country to country, motivated by the desire of its owners to speculate on changes in exchange rates, or to take advantage of differences in interest rates, or to avoid political troubles. Exchange controls now seek to prevent such movements of capital.

### Recent History of Capital Movements

During the 19th and early 20th centuries, international investment was mainly undertaken by private institutions and persons, governments playing a minor role. Up to 1850, such investment was largely confined within Europe, with the United Kingdom making substantial contributions in the form of capital goods and equipment to the relatively less developed countries on the Continent. In consequence of the growing industrialisation of Europe, however, and the opening up of overseas territories, the flow of British capital into Europe diminished and instead was directed to an increasing extent to the exploitation of the natural resources of areas as yet undeveloped.

The shift in British investment to these countries was accompanied by similar action on the part of other European nations, which also began to lend abroad. Whereas in the 1850's approximately 60 per cent of British overseas investments were in Europe, by 1913 more than 85 per cent were in non-European countries largely dependent on the production and export of primary commodities. The decline in United Kingdom investment in Europe represented a decrease in absolute value of more than one-half, while British holdings elsewhere rose more than fivefold. The gap left in Europe through the withdrawal of British capital was covered by increased investment of French and German origin. The United Kingdom up to 1914 remained the largest single international investor, because Britain had commenced investing overseas on a substantial scale before other nations. The growth of international investment during this period was also an important factor leading to a marked expansion in the volume of international trade.

The first World War caused a considerable change in the character of foreign investment and in the relative positions of the leading creditor nations. Germany lost almost all her pre-war foreign holdings and France nearly one-half. The reduction in the United Kingdom's investments compared with 1913 exceeded 20 per cent, a large part of this fall representing the liquidation of British-owned United States securities to help pay for supplies from North America.

The United States emerged from the war as a large creditor nation. While the investments held by European nations had declined after 1914 the United States increased the scale of its lending, both private and public. Before the war, the value of United States investments abroad totalled U.S.\$3,800 million, compared with U.S.\$6,800 million of foreign-owned funds invested in the U.S.A. By 1919, private American long-term capital overseas alone was estimated at U.S.\$6,500 million and in 1921, United States loans on a government-to-government basis had reached the vicinity of U.S.\$10,000 million.

In the first decade of the inter-war period, the United States was the major supplier of both government and private foreign loans and investments. The direction of flow of funds again changed, and capital, this time mostly from North America, once more moved towards the more industrialised countries of Europe. Much of these funds comprised large scale American Government loans to war-damaged or newly-formed states on the Continent. With the return of a measure of stability in Europe, however, private loans and investments expanded, including not only those of the United States origin, but also those of several of the pre-war capital-exporting nations.

A particular feature of the 1920's was the high percentage of short-term capital involved in foreign private transactions. Of the equivalent of U.S.\$7,500 million borrowed by Germany up to 1930 (approximately half of which came from the U.S.A., and the remainder mostly from other European sources), more than 40 per cent was on a short-term basis. Investors apparently sought the greatest measure of security for their holdings, i.e., loans to governments or government-guaranteed credits, and quick withdrawal in the event of a return of economic or political instability.

The flow of private American short-term capital to Europe continued until the second half of 1928, when

the greater attraction of United States domiciled bonds resulted in a sharp drop in American buying of foreign securities. This reversal in the movement of American capital was intensified following the Wall Street crash in 1929. Short-term capital lent to European countries was withdrawn, thereby accentuating the internal and foreign exchange difficulties of the borrowers and contributing to the breakdown of the gold standard in 1931.

In the 1930's the steady outflow of capital from creditor nations virtually ceased, this being a period of depression, political unrest, nationalistic policies, high tariffs, and exchange controls. Even the general recovery in the latter part of the 1930's, which was sustained by rearmament in many countries, failed to revive significantly the flow of international investment.

#### Post-War Policies

Since the end of World War II, the United States has been the principal creditor nation and the main source of new funds. During 1939-45, foreign countries sold a substantial amount of their long-term investments in the United States but, through the subsequent operation and annulment of Lend-Lease, that country did not conclude the war with large credits outstanding as in 1918. The pattern of international investment after 1945 is mainly one of large-scale lending by the United States Government to European countries, supplemented by credits from the Canadian Government and the newly-formed International Bank for Reconstruction and Development. There has also been an increase in private American investment overseas but this has been overshadowed by the outflow of government capital. The capital contribution, both public and private, of other countries to and within Europe has been almost negligible by comparison, although certain of these governments (including the United Kingdom) and their agencies appear to have invested fairly extensively in their own overseas territories and associated currency areas.

Nearly 85 per cent of the total net outflow of American long-term capital, excluding grants, between 1946 and 1949, amounting in the aggregate to U.S.\$14,000 million, provided by the U.S. Government, substantial items in this category including the U.S.\$3,750 million loan to the United Kingdom; Export-Import Bank loans; credits under the European Recovery Programme; and the United States subscriptions to the International Monetary Fund and the International Bank. Movements of private short-term capital have been small and in 1948 the United States was a net importer of such funds. Possibly indicating the return of a measure of stability in international economic relationships, the net outflow of United States private long-term capital in 1950 rose by almost 50 per cent compared with 1949, while the net outward movement of U.S. Government long-term capital in 1950 was more than 70 per cent less than in the previous year, mainly due to reduced lending under the European Recovery Programme.

Several developments in the period since 1945 deserve some attention:—

- (a) The entry of Canada into the international investment field as a large-scale lender. Although Canadian net private investment abroad has been small, the Canadian Government since 1945 has granted loans to European countries

- to the extent of nearly Can.\$1,800 million.
- (b) The establishment of the International Bank for Reconstruction and Development, which began operations in 1947 and has since made loans amounting to over \$1,100 million. During the first two years of its operation, almost all the Bank's long-term loans were made to assist the reconstruction of European economies, but more recently (mainly owing to the fact that the task of rehabilitating Europe has since been undertaken through Marshall Aid) most of the credits from the Bank have been for the purpose of promoting the economic advancement of underdeveloped nations.
  - (c) The attempt, through the proposed International Trade Organisation, to establish a code of rules covering international investment, setting out the rights and obligations of private investors on the one hand and those of the capital-importing countries on the other. So

far no formal agreement has been achieved in this direction.

- (d) The establishment of other large-scale international schemes for the economic development of the less developed countries of the world. Those most worthy of mention are—Marshall Aid; President Truman's "Point Four" Programme; the "technical assistance" programme of the Economic and Social Council of the United Nations; the Economic Commissions (also under the Economic and Social Council) for Europe, Asia and the Far East, and Latin America; the "Colombo Plan", and the South Pacific Commission. Though the economic development of many countries has scarcely begun, these organisations have already produced results and justify the belief that progress will be faster in the future. In terms of human welfare, economic prosperity and political stability, much depends on their success.

## Overseas Private Investment in New Zealand

IN THE OCTOBER, 1951 ISSUE of the "Monthly Abstract of Statistics", the Census and Statistics Department published the results of the first annual survey of companies with overseas affiliations. As mentioned in the preceding article, the Reserve Bank's analysis of international capital movements excludes those which do not involve dealings by banks in foreign exchange, so that this new survey, which was undertaken within the framework of wider inquiries into New Zealand's balance of payments, yields information hitherto unobtainable.

The survey was directed to New Zealand subsidiaries and branches of overseas companies and to New Zealand companies with branches and subsidiaries overseas, with a view to obtaining details of the total volume and annual inflow or outflow of capital. Also included were certain companies resident in New Zealand which could not be properly classified as subsidiaries, but where the majority of the subscribed capital was held overseas.

The intention was to encompass all overseas firms which hold "direct investments" in New Zealand, and all New Zealand companies which hold direct investments overseas; the figures so far published, however, relate only to the former. As "portfolio" holdings (defined as holdings of securities which do not constitute control of the respective companies) and transactions therein are excluded from the survey, its coverage is narrower than the total of private long-term investments or movements. Also excluded from the first survey are the investments held by banks and insurance companies, but as the inquiry is being extended to these institutions, it is hoped to include them in the future.

In the case of subsidiaries operating in New Zealand the material surveyed could be summarised under three headings: (1) nominal capital, (2) dividends paid to parent company, and (3) inter-company accounts between subsidiary and parent company and between associated companies. The inclusion of inter-company liabilities in the investment position is necessary be-

cause the parent company may not be restricted to share capital subscriptions for capital investment. In numerous cases capital is being advanced through what at first sight appears to be a "current" account, but may in fact acquire the character of a long-term advance because outstanding liabilities are seldom settled by the subsidiary.

Where branches are concerned, balances on "Head Office" or "Branch" account assume the role of a capital account in the books of the branch. As with the "current" account of a subsidiary, such balances fluctuate in response to normal business requirements, but to an even greater extent than with inter-company liabilities their behaviour in the aggregate will be that of a long-term investment movement.

Another aspect which both types of accounts have in common is that they record transactions in merchandise, plant and machinery, which may assume the character of capital flows rather than ordinary imports. Frequently overseas investments in New Zealand are effected by this means rather than by remittances of cash, and to the extent that this happens, Reserve Bank statistics of overseas capital receipts and payments do not provide a complete picture. In addition other book entries (dividends retained by subsidiaries, unremitted earnings of branches, service charges, etc.) can change the overall investment position without taking the form of overseas remittances.

Finally, undistributed profits are included in investment; to the extent that a subsidiary re-invests its undistributed profits in its New Zealand business, overseas claims on the New Zealand economy increase by a corresponding amount. On the other hand, dividend distribution in excess of current earnings (i.e., out of past reserves) would have the opposite effect.

The data in the following table, which was obtained by direct inquiry from all firms with overseas affiliations, illustrates the origin of investment funds and their outlay during the year ended 31st March, 1950,

and the effect of direct remittances from overseas on the investment position. Such a table reveals movements in private "direct investments" that were previously unknown.

From this table it appears that in a total increase of overseas investments in New Zealand of £2.99 million during the year ended 31st March, 1950, direct capital remittances from overseas contributed only to the extent of £800,000; the balance being financed from other sources of which the most important were imports not paid for (£1.28 million).

**INCREASE IN OVERSEAS INVESTMENT IN NEW ZEALAND SUBSIDIARIES AND IN NEW ZEALAND BRANCHES**  
(£N.Z. millions) **OF OVERSEAS COMPANIES—1949-50**

Origin of Funds		Outlay of Funds	
Capital remittances from overseas	0.80	Subscriptions to share Capital	1.19
Dividends retained in New Zealand	0.06	Added to Reserves	0.28
Undistributed Profits	0.28	Increase in Account Liabilities (subsidiaries)	0.28
Net Imports not paid for	1.28	Net Investment effected in New Zealand	0.10
Credits for service charges, royalties, etc.	0.54	Increase in Head Office Assets	1.14
Remittances of Profits in excess of earnings	— 0.06		
Dividends paid to New Zealand shareholders on behalf of Head Office	— 0.08		
Valuation Adjustments and Other	0.17		
<b>Total Funds</b>	<b>£2.99</b>	<b>Total Funds</b>	<b>£2.99</b>

## 1951 Budget

THE 1951-52 BUDGET presented by the Prime Minister and Minister of Finance, the Right Hon. S. G. Holland, on 18th October followed the lines of Government policy as announced during the recent general election campaign. The buoyant state of the national finances has enabled the Government to increase social security payments and subsidies, reduce taxation, and at the same time to plan a considerable increase in defence expenditure. Details of the Budget estimates and actual figures for revenue and expenditure last year are shown in a table on page 168.

### Revenue

The total revenue of the Consolidated Fund and the Social Security Fund is expected to increase by £29 million. Income tax is expected to yield £16.5 million more than last year (mainly because of the high wool prices) in spite of the fact that the surcharge on basic rates is reduced from 15 to 10 per cent and the flat rebate to all taxpayers is increased from £10 to £15. These two measures are expected to save taxpayers about £6.25 million. Customs duties were reduced by 3d. per pound on tea and 2d. per gallon on petrol on 3rd September, the total cost being £1.4 million in a full year. However, because of the larger volume and greater cost of imports the remaining duties should yield £4.5 million more this year. Revenue from the social security charge of 1/6d. in the pound should be £6 million higher, partly because of the higher wool prices and partly because of the 15 per cent wage increase granted in February, 1951.

### Expenditure

Although almost all votes show increases over last year, these are mainly accounted for by higher costs

In addition to the above information the survey showed that as at the 31st March, 1950, overseas direct investment in New Zealand amounted to £48.45 million, comprising £20.79 million of nominal share capital (debentures) held by overseas residents, and inter-company balances and net branch assets of £27.66 million.

Of the £48.45 million, over 60 per cent has been contributed by the United Kingdom and about 28 per cent by Australia.

and do not represent any extension of the State's activities. The major exceptions to this are the increased expenditures on defence, social security and subsidies. As a primary producing nation New Zealand is not involved to any great degree in the diversion of production from consumer goods to war purposes. Our contributions to any future war would again be food and men. The increase of £9.8 million to £25 million in the defence vote reflects the stepping-up of the programme to re-equip and increase the armed forces.

The increase of £6 million in social security receipts is balanced by a similar increase in expenditure. The causes of this increase include higher pension rates granted during the past year, an increase in universal superannuation payments (see below) and the setting up of a special fund of £200,000 to provide special emergency benefits for pensioners.

Stabilisation subsidies will take £15.5 million of expenditure this year compared with £9.4 million in 1950-51. At one stage last year subsidies had been cut to an annual rate of £5.5 million but rising prices following the outbreak of hostilities in Korea forced the Government to re-introduce subsidies on such commodities as wool, flour and bread. This year's vote represents an annual rate of £18 million, the highest figure yet recorded.

Despite the increased expenditure and the reduction in rates of taxation it is anticipated that £6.6 million will be available for paying into the War Emergency Account. This account, to be established by a payment of £5.25 million from the 1950-51 Consolidated Fund surplus of £8.7 million, is intended to act as a reserve against unforeseen expenditure in the

initial stages of a war, or, if not needed for that purpose, to help cushion the effects on the economy of a return to more normal price levels.

#### Universal Superannuation

The Social Security scheme at present provides for two benefits during old age. The age benefit of £2 17s. 6d. per week (£5 15s. 0d. for a married couple) is payable after the age of 60 but is subject to a means test. It cost £17.2 million last year and is expected to cost £19 million this year. Universal superannuation is not subject to a means test and the qualifying age is 65. The first payment was made in 1940 at the rate of £10 per year and there was to be an annual increment of £2 10s. 0d. until a rate equivalent to the age benefit was reached.

The Government now aims to amalgamate these two benefits in due course, so that at the specified age people will be entitled to State superannuation regardless of any other income they may receive or property they may own. As a first step towards this objective, the existing universal superannuation benefit has been increased from £37 10s. 0d. to £75 per year as from 1st October, and is made subject to income tax. From 1st April, 1952 the annual increase in the benefit will be increased from £2 10s. 0d. to £5. The cost of these proposals will be £1.4 million this year and £2.7 million next year, but as an offset, income tax on the benefit should produce about £250,000 next year and about £700,000 thereafter.

#### Hospital Rating

Ever since the introduction of the Social Security scheme in 1938 there has been much dissatisfaction, especially in country districts, over the rating of land for hospital purposes. The State already contributes £7.2 million in hospital subsidies as well as £2.6 million from the Social Security Fund, and the Government, fulfilling an election promise, now proposes to take over the £1.85 million at present paid by ratepayers. This will be done by reducing the maximum hospital rate each year over the next five years.

#### Capital Programme

The total expenditure on capital works is expected to be £56 million, the main items being: electric power, £13 million; land settlement, £12 million; State housing, £10 million; education buildings, £3 million; railways improvements and rolling stock, £5 million; telephone and telegraph extensions, £4 million; miscellaneous, £9 million.

Current receipts, both revenue and capital, such as those from sales of power and land and moneys in depreciation funds, are expected to meet £18 million of this programme. Loan finance of the remaining £38 million has already been arranged, £13 million coming from this year's National Development Loan, £11 million from National Savings, £5 million of last year's loan moneys which were unspent, £4 million of capital moneys in other accounts and £5 million from some special investments. No bank credit will be used.

#### Public Debt

Although £34 million was borrowed last year, substantial repayments were made and the net increase in the Public Debt was £23 million. The last of the Australian domiciled debt, a 5½ per cent loan of £A.779,000, was repaid on 1st February, 1951. On the same date a 5½ per cent loan of £stg.1,250,000 domiciled in London matured. £stg.331,000 was repaid and the balance was converted into 3½ per cent stock maturing on 15th December, 1963-66. On 15th April, 1951, two 2½ per cent loans matured. On 31st March, 1950, these loans amounted to slightly more than £10 million but as there were several large holdings, negotiations with the stockholders were undertaken resulting in conversions of nearly £7.9 million before maturity date. The balance was repaid on maturity date. In addition to the statutory contribution from the Consolidated Fund for debt redemption, a special transfer of £3 million was made to redeem Treasury Bills held by the Reserve Bank.

## The First Year of E.P.U.

THE FIRST ANNUAL REPORT of the Managing Board of the European Payments Union (E.P.U.) which was published in August, describes the operations of the E.P.U. and summarises the transactions for the year ended 30th June, 1951. (For details of the purpose and constitution of E.P.U. see articles in the "Statistical Summary" for August and September, 1950.) The report also sets out the main events during the year, and examines critically the achievements of the E.P.U. in the light of the objectives which members set themselves when it was established. The objectives are divided into three groups: (a) those having regard to commercial and financial relations between the members; (b) those having regard to progress of the members towards financial independence; (c) those having regard to progress towards equilibrium in international financial and trading relations.

With regard to the first objective, set out in the preamble to the E.P.U. agreement as follows—"To facilitate to the largest possible measure among the

Contracting Parties, the liberalisation on a non-discriminatory basis of trade and invisible transactions"—the Managing Board considers that this has undoubtedly been achieved by the Union. Discrimination against countries such as Belgium, Switzerland and Germany (which formerly had hard currencies) has been brought to an end. As a result of non-discrimination between members the pattern of trade has changed, and although the new pattern has created new problems, the Managing Board consider that it is probably healthier than the old pattern. The system of multi-lateral settlement of surpluses and deficits (described in the articles referred to above) has proved to be effective in practice. Of \$3,200 million of monthly settlements accumulated during the year, \$2,100 million has been settled by the mechanism of the Union, leaving \$1,100 million to be settled by credits or gold payments. The credit facilities and the fact that the member countries no longer have to seek a strict balance in their bi-lateral payments, have

made possible more liberal trading policies. Considerable progress has been made in the removal of quantitative restrictions on trade. During the nine months ended 31st March, 1951, the value of trade among members increased by 30 per cent compared with the corresponding period in the previous year, while the volume also increased considerably, although not as much as the value because of higher prices. Another beneficial consequence of the Union has been the large repayment, accompanied by general consolidation and funding, of intra-European indebtedness incurred immediately after the war. Some \$319 million, or more than one-third of the unfunded indebtedness existing on the 30th June, 1950, has already been repaid.

The Managing Board finds it more difficult to determine how far the Union has been able to promote progress towards the two other important objectives, (b) and (c) above. The crucial question is to what extent the members have been able to achieve and maintain internal stability and a satisfactory balance of payments. The Union has given assistance or counsel to both debtor and creditor members with a view to avoiding repeated large deficits or surpluses, and in many cases there has recently been a reversal of the previous tendencies which were working against the achievement of equilibrium. In particular the Board feels that in the handling of the German problem (see July, 1951, issue of the "Bulletin") a satisfactory solution would have been hard to find without the E.P.U.

In discussing the need for members to achieve general internal and external equilibrium, the Board states that it does not wish to convey the impression that the sole responsibility for establishing and maintaining equilibrium rests with debtor countries. On the contrary, in any multi-lateral trading system it is the creditors who must, by a liberal importing policy, ensure that a balance of trade is achieved at a high level of trading activity.

The Board also draws attention to the problems which arise from the fact that the Union functions as though the currencies of all members can be treated as equally hard or soft, whereas, in fact, the currencies of Europe were not equally strong when the Union was founded and have not become so. It notes that capital movements are taking place towards the stronger currencies, with a tendency to increase the creditor position of such countries—a fact which poses

serious problems. By stressing that the Union is a mechanism for payments for "the transitional period between the European Recovery Programme and the full attainment of convertibility of currencies and a multi-lateral trade system on a world basis", the report admits that the progress of many members towards convertibility of their currencies has been disappointingly slow. The difficulties of member countries in putting their affairs on a sound basis have been increased during the year by world events and notably by a serious deterioration in the terms of trade of most members.

The Managing Board does not recommend any substantial change in the E.P.U. Agreement, as it believes that the E.P.U., while it cannot provide a "magical" protection to members against those misfortunes, is as good an instrument as is reasonably possible to find in present circumstances to assist members in the transition from Marshall Aid towards financial independence and convertibility.

#### Position of Individual Countries

At the 30th June, 1951 the countries with a favourable balance in their transactions with all other members (i.e., a credit "net cumulative position" with the Union) were the United Kingdom, Belgium-Luxembourg, Portugal and France, while those most seriously in deficit were Austria, Germany, the Netherlands, Turkey and Denmark. The net cumulative position of each member, after adjustments in some cases for the use of existing reserves and initial debit or credit positions, was balanced in accordance with the E.P.U. Agreement by gold transfers and credit granted to, or received from, the Union. Thus during the year the United Kingdom accumulated a favourable balance with the Union at the end of June, 1951 of \$604m. which, after using an initial debit position of \$150m. and allowing other members to draw on their sterling resources to the extent of \$86m., was settled by a receipt of gold from the Union of \$80m. and a grant of credit to the Union of \$292m.

(Since June the position of the United Kingdom in the E.P.U. has deteriorated and at the end of September, 1951 that country was a net debtor to the extent of about \$142m. During the same period Belgium's credit has increased and now exceeds that country's quota—\$360m., while Germany's net debtor position has been improved as a result of remedial measures.)

## Business Conditions in the United States of America

THE IMPACT OF THE REARMAMENT PROGRAMME was the most important feature of the U.S. economy in the past year. It affected not only the United States itself but had repercussions on other countries chiefly through its effect on world markets for raw materials, on international trade, and on the individual countries' balance of payments.

The United States defence programme was accelerated immediately after the outbreak of war in Korea (June, 1950) when business activity was already at a high level. In the third quarter of 1950 spending on defence was at an annual rate of about \$14 billion. This rate increased steadily until a year later it was

nearly \$40 billion, and the peak is not expected to be reached until the first half of 1953. The 1951-52 Budget (June year) allocated \$52.5 billion for defence purposes (including foreign military assistance) representing about 17 per cent of the gross national output. The rearmament drive was superimposed on very high levels of private expenditure for consumption and capital formation and it therefore created many difficulties, e.g., to control inflation and to restrain ordinary civilian demands so that productive effort could be diverted to defence needs. These problems rapidly became urgent with the result that in September, 1950, the Defence Production Act was passed giving to the

Administration powers, *inter alia*, to allocate materials, limit their use to essential purposes, and requisition those in short supply. Orders under this Act were made at the end of 1950 controlling the use of many strategic materials, such as aluminium, copper, zinc and nickel.

The Defence Production Act also gave additional powers to the Federal Reserve Board to control the use of credit. A necessary part of the rearmament programme was the need to reduce civilian demands for ordinary goods and services at least until new productive capacity could provide for both. This meant that monetary and fiscal controls (reinforced where necessary by direct controls) had to be used to restrain spending power.

Three basic measures were adopted; firstly, taxes were increased to cover the mounting expenditure of the U.S. Treasury; secondly, prices and wages were "frozen" (with some flexibility permitted) at their level as at January, 1951; and thirdly, the Federal Reserve Board made use of its orthodox powers of monetary control and, in addition, exercised its powers under the Defence Production Act to regulate consumer credit. For example, in September, 1950, the automobile, home appliances and furnishing industries were directed when selling on time payment, to increase their deposit requirements and reduce the time allowed for payment. (This regulation was relaxed in August, 1951.) A little later in the year credit to home builders was restricted in order to reduce the prospective output of the industry in 1951 to about one-third the annual level it had reached in October, 1950. The Federal Reserve Board also took several steps to tighten up commercial bank credit. In August, 1950, its discount rate was raised from  $1\frac{1}{2}$  per cent to  $1\frac{3}{4}$  per cent; early in 1951 the reserve requirements for trading banks were increased by \$2 billion; and finally in March, 1951, the Board's support of a  $2\frac{1}{2}$  per cent long-term interest rate for Government bonds was withdrawn. (Previously, official purchases of bonds to support the market price had produced inflationary effects.) Allied to these credit controls was the formation of voluntary credit restraint committees in all the main regions of the United States. Their purpose was to enlist the co-operation of all lending agencies throughout the country in refraining from providing credit for non-productive purposes.

Thus the U.S. economy since Korea has been characterised by an extremely high level of business activity and a need to avoid inflation. In the year to June, 1951, the gross national product rose from an annual rate of \$275 billion to \$325 billion. Part of this was due to higher prices but the main factor was greater output. Industrial production, which had risen steadily since the mild recession of 1949, continued to increase so that in June, 1951, it was nearly 12 per cent higher than a year earlier. Within this overall expansion, production in the various industries changed greatly. In the closing months of 1950 output of television sets, radios and certain electrical appliances were at record levels. Production in the automobile industry was also at a very high level. The output of these and other industries was checked in 1951 partly because the use of raw materials was being controlled by the National Production Authority but principally because consumers' demand fell away. As the output in these industries declined it was more than overtaken by rising production in the heavy in-

dustries which were stimulated by defence orders. The effect of the rearmament drive was shown by the ordnance industry, the output of which increased by about 37 per cent between the first and second quarters of 1951. In spite of the overall increase, production was insufficient to meet the demand and industry's unfilled orders mounted rapidly. The industrial activity reduced the number of unemployed in July, 1951, to 1.9 million compared with 3.2 million a year earlier.

The war in Korea caused a wave of retail buying. A large part of this business was anticipatory in the sense that consumers bought more than they required, or earlier than they would have done, because they believed certain goods would soon be in short supply. Thus sales of furnishings, house appliances and television sets boomed up to January, 1951 followed by a reaction to this movement later in 1951. Sales generally remained at a high level, but for certain goods, notably those already mentioned, retailers were forced to adopt sales campaigns. Notwithstanding record retail sales, production of consumers' goods was more than sufficient to meet the demand and business inventories increased during 1951.

Throughout the year there was a steady pressure on prices, although in more recent months, as fiscal and monetary measures took effect, this pressure has slackened. The index of consumers' prices fell slightly during the first quarter of 1950 but rose 8 per cent thereafter to the end of January, 1951. The main causes of the price increases in the second half of 1950 were the rise in both wages and in the prices of raw materials. The average weekly earnings of workers in manufacturing industries increased by nearly 9 per cent between June and December, 1950, and have since risen further due both to rises in rates of pay and to longer working hours. The second factor was the boom in raw material prices. This was a world movement but it was at least partly brought about by the large United States stockpiling programme. In the event, prices of primary products in the United States rose by nearly 20 per cent after June, 1950, and this was quickly transmitted to wholesale and retail prices. It appears that the peak in raw material prices was reached in February, 1951. In January the authorities intervened and ordered a "price freeze" which (in conjunction with credit controls) has resulted since then in comparatively stable retail prices.

The many factors influencing domestic activity naturally had their effect on the United States balance of payments. Towards the end of 1950 U.S. imports were rising rapidly and exports were lagging behind. This was a period in which the gold reserves of many countries were rising and practically all of this gold came from the United States. In the nine months after Korea the U.S. gold stocks declined by some \$2.4 billion. About half went to the United Kingdom and most of the remainder to other Western European countries. The reasons for this movement were the large imports of raw materials, e.g., wool, rubber and tin (for stockpiling) at unprecedented prices; the continuation of foreign aid, which for some countries was a direct addition to their reserves; and the prospect of unstable conditions in the U.S. during the rearmament programme which caused holders of dollars to convert them into gold. This movement, however, ceased abruptly in the second quarter of 1951. Exports from the U.S. rose rapidly in volume to nearly

their post-war peak, partly to fulfil the demand of the European rearmament programme. Nearly all European countries, including the sterling area, bought more from the U.S. in the second quarter of 1951 than they did in the first quarter and consequently their balance of payments with the dollar area deteriorated. In this way gold commenced to flow back to

the U.S., their net loss to the end of August, 1951, being approximately 10 per cent of their holdings.

In view of the long-term nature of the rearmament programme it seems very probable that the U.S. economy will continue for some time at a high level of production, employment and trade, and that the need for anti-inflation measures will remain.

## Current Notes

### Board of Directors

By Order-in-Council dated 7th November, 1951, Dr. R. G. McElroy (Auckland), Mr. T. W. Perry (Christchurch), and Mr. P. Orr Smellie (Dunedin) were appointed to fill vacancies in the Board of Directors of the Reserve Bank, to hold office during pleasure in accordance with the provisions of Section 7 of the Reserve Bank of New Zealand Amendment Act, 1936.

By Order-in-Council under the same date, Mr. George Lawn, who has been a director since 1936, was reappointed for a period of one year from 26th September, 1951.

### Directors of Bank of New Zealand

Mr. J. L. Griffin and Mr. J. Halligan, both of Wellington, have been appointed directors of the Bank of New Zealand.

### Economic Survey

As a preliminary to the Financial Statement, the Prime Minister tabled in the House of Representatives a review of economic developments in the Dominion. The paper was prepared by departmental officers at the direction of Cabinet's Sub-Committee on Internal Economic Policy. The purpose of the survey is to bring about a general awareness of the economic problems facing the Dominion and of the types of solutions practicable in a democratic country. As a basis of understanding these problems the review sets out the principal economic changes during the wartime and post-war periods. Inflation is commonly regarded as the most difficult and urgent issue and this has influenced the selection of data. Chapters are included dealing more specifically with the problems of inflation and the possible remedies. Other sections deal with population, immigration, labour and wages, production, stabilization measures in primary industry, external transactions, incomes, investment, savings and consumption, the volume of money, price levels, control of bank advances, public finance, price control, subsidies and taxation.

The document which has been printed as an Appendix to the Journals of the House of Representatives No. B-5 under the title "The New Zealand Economy 1939-51", is a welcome addition to economic studies of the Dominion.

### Public Accounts

There were few unusual or unexpected features in the Public Accounts for the six months ended 30th September, 1951. A surplus of £3.7 million in the Consolidated Fund was partly offset by a deficit of £2.2 million in the Social Security Fund giving an overall surplus of £1.5 million on current account.

(In the same period last year there was a deficit of £1.8 million.) Owing to higher costs and incomes, both receipts and expenditure have continued to rise, total expenditure in the current accounts amounting to £74.7 million (excluding the Family Bonus of £3 million paid from last year's surplus) compared with £66.1 million in the same period last year. Most of the items of capital expenditure were also higher, but a marked reduction in expenditure on housing construction (£2.4 million compared with £4.2 million) largely offset the increases with the result that expenditure on public works, electricity supply and land development was only slightly greater than for the corresponding period last year.

### Gross Investment in New Zealand

An indication of the extent to which the war reduced public and private investment is given in the table on page 167, taken from the recent White Paper on "The New Zealand Economy 1939-51". During the war years replacements for worn-out and obsolete plant were almost impossible to obtain and private investment was barely adequate to maintain the productive capacity of industry. Any addition to that capacity had, in general, to be postponed till after the war. In the years 1937-38 to 1939-40 gross capital investment (excluding changes in the volume of stocks) was about 15 per cent of gross national product, but fell to as little as 5 per cent in 1942-43. The proportion has increased steadily since the war and for the past two years investment has represented 19 per cent of the national product. The most noticeable trend in the figures is the change in emphasis from public to private investment. Before the war public investment was greater than private, but since 1946 the position has been reversed. In these figures all war and defence expenditure is excluded.

A further break-up of the investment expenditure on building for the past two years is given below.

#### INVESTMENT EXPENDITURE ON BUILDING

(£ millions)

	1949-50	1950-51
Dwellings	20.8	23.0
Other buildings	3.4	4.7
Alterations and additions	6.1	7.3
Rural buildings	12.1	13.7
<b>Less public expenditure on building</b>	<b>42.4</b>	<b>48.8</b>
	14.1	12.2
<b>Private building expenditure</b>	<b>£28.3</b>	<b>£36.6</b>

### National Income Statistics

In this year's Official Estimates of National Income and Expenditure the Government Statistician has included for the first time a set of accounts dealing

with the manufacturing sector of New Zealand's economy. This analysis of production in a particular sector marks the beginning of the "output approach" which it is hoped to extend to other sectors next year. Eventually a complete set of social accounts will be compiled making it possible not only to analyse the National Income according to the sectors producing it but also to show the inter-related transactions between the sectors.

The new tables show that from 1946-47 to 1949-50 the manufacturing sector's contribution to the National Income was almost constant at about 23 per cent. Similarly the proportions of total wages and salaries paid by the sector has been steady though at the higher figure of around 31 per cent. Owing to the more rapid replacement rate of plant and equipment compared with buildings, there has been a steady increase in the proportion of total depreciation allowances attributable to manufacturing. This figure has increased steadily from 20 per cent of all depreciation allowances in 1946-47 to 30 per cent in 1949-50.

Total production costs of the sector in 1949-50 were £435.8 million. Of this 48.7 per cent was for locally-produced materials and power, 13.0 per cent for imported materials, 25.4 per cent for wages, salaries and other services, 8.2 per cent for profits, interest and rent, and the remaining 4.7 per cent for indirect taxes and depreciation allowances. Only 23 per cent of the gross value of manufactures was sold for personal consumption, slightly more than 50 per cent being sold as materials or equipment for further processing or for use in other sectors, while about 25 per cent was exported. The total value of manufactures exported was £107.5 million of which £93.5 million was in the form of dairy products and frozen or preserved meats.

Because of the importance of the processing of primary products (about 45 per cent of all manufacturing materials coming directly from farms) a separate table covering the processing of meat and dairy products, which account for 80 per cent of all farm produce, has been compiled. This shows that in 1949-50, the total value of their products was £120 million, of which 78 per cent was exported. Imported materials accounted for only 1.3 per cent of their total cost of production.

### Farm Industry Reserves

The following table which was included in the Government's recent publication "The New Zealand Economy, 1939-1951" sets out in a concise form details of the annual amounts that have accrued to the reserve funds of the dairy, meat, and wool industries.

Balances in the meat industry reserve accounts are as at 30th September for the years 1948-1951, while the amount of £32 million in Wool Retention Moneys is an estimate of the total that will be credited to individual wool retention accounts for the 1950-51 wool season. As some growers still have moneys voluntarily deducted from their 1950-51 season's wool cheques and credited to their wool retention account, the actual figure may be higher than £32 million. The Wool Capital Account relates to New Zealand's share of profits from the disposal of wool taken over by the Wool Disposal Commission at the end of the war, while the Wool Contributory Charge moneys are obtained by a levy on all wool sold at auction.

The table is of interest as it reveals that the present total reserve funds of the farming industries are esti-

mated to be about £116 million, compared with about £750,000 as at 31st July, 1942, and approximately £72.3 million at the same time last year.

### FARM INDUSTRY RESERVES

Balances as at 31st July	Dairy Industry Stabilisation Account	Meat Industry Reserve Accounts	Wool Capital Account	Wool Contributory Charge	Wool Retention Moneys
	(£N.Z.000)	(£N.Z.000)	(£s1g.000)	(£N.Z.000)	
1942	—	750	—	—	—
1943	—	1,884	—	—	—
1944	1,067	4,317	—	—	—
1945	4,675	9,159	—	—	—
1946	4,703	12,202	—	—	—
1947	8,907	18,222	5,046 Dr.	1,165	—
1948	12,663	25,629	1,047 Dr.	2,593	—
1949	15,331	29,536	5,182 Cr.	4,205	—
1950	18,450	35,337	12,933 Cr.	5,563	—
1951*	23,000	36,000	19,000 Cr.	6,000	32,000

\* Estimated.

### Meat Production

According to a recent statement by the New Zealand Meat Producers Board, killings of meat for export for the season ended 30th September, 1951, were the lowest since the 1937-38 season. As the following table shows, the greatest declines compared with the previous season were in the killings of lamb and mutton for export. The Board attributes these falls chiefly to the effect of high wool prices which influenced producers to hold stock over to the new season, for which prospects appear favourable.

Killings for export for last season as compared with the 1949-50 season are as follows:—

### (thousands) MEAT KILLINGS FOR EXPORT

	1950-51	1949-50	Decline
Lambs (carcases)	10,979	12,264	1,285
Weathers "	322	627	305
Ewes "	1,732	2,129	397
Beef (quarters)	308	494	186
Porkers (carcases)	86	86	—
Baconers "	95	127	32

### Import Licensing

Following recommendations made by the Board of Trade, the Minister in Charge of Import Licensing announced on 11th October, the release of forty-five more items from import control provided they are obtained from soft currency areas. Many of the items relate to goods manufactured locally.

### United Kingdom Trade Deficit

The adverse trade balance of the United Kingdom for the first nine months of 1951 amounted to £925 million, compared with £283 million for the corresponding period of 1950. Imports increased in volume by about 14-15 per cent but their value increased by £1,011 million (53 per cent) to £2,919 million. Exports (including re-exports) were valued at £1,994 million, representing an annual rate 17 per cent higher than in 1950. The increase in the volume of exports over the 1950 average is provisionally estimated at about 3 per cent.

Exports to North America during the first nine months totalled £214 million, equivalent to an annual rate 19 per cent higher than in the previous year.

## I—RESERVE BANK OF NEW ZEALAND

(£N.Z. thousands)

## Liabilities and Assets

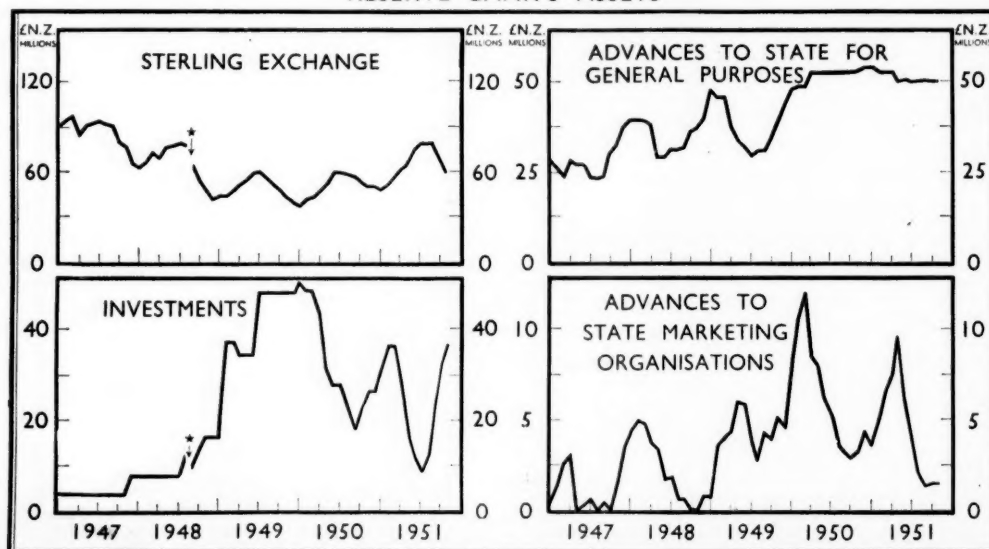
Average of Weekly Figures:	LIABILITIES						ASSETS						
	Bank Notes	Demand Liabilities				Other	Reserve			Advances to State		Other Advances and Discounts	Other Assets*
		State	Banks	Wool Retention Account†			Gold	Sterling Exchange	Other*	Investments	Market'g Orgns.	Other	
1944	37,453	13,234	32,987			916	2,802	33,720		11,509	2,760	34,861	2,567
1945	41,123	12,228	43,972			1,012	2,802	60,064		11,797	2,085	24,163	1,455
1946	45,169	17,302	59,731			524	2,802	81,332		5,991	961	35,127	1,396
1947	47,682	13,265	57,102			483	2,802	85,300		4,576	1,157	28,510	1,046
1948*	48,930	13,228	57,706			380	2,802	65,090		10,496	1,698	35,182	7,549
1949	51,312	11,384	73,837			355	3,223	48,995		41,855	3,482	37,628	1,973
1950	55,126	15,446	74,239	117	1,115	4,269	51,319	256		31,313	5,096	52,245	2,277
Last Wednesday in Month:													
1950—Oct.	55,274	11,323	72,302			1,007	4,569	49,783	257	25,974	3,206	53,244	3,511
Nov.	57,473	12,556	70,210			894	4,666	49,596	389	25,974	4,304	54,292	2,567
Dec.	62,216	14,985	62,579	3,114	556	4,697	47,946	350		30,974	3,558	54,178	2,386
1951—Jan.	58,583	17,416	67,367	10,889	893	4,810	50,702	390		35,974	4,832	53,000	2,668
Feb.	57,704	29,924	67,390	7,859	722	4,871	56,333	289		35,974	6,199	53,000	4,576
Mar.	58,418	44,884	49,060	6,741	756	4,932	60,970	349		27,974	7,372	53,000	4,663
Apr.	58,675	21,673	65,834	3,849	657	4,959	64,916	544		15,974	9,607	50,000	4,182
May	58,413	10,544	75,902	1,238	4,718	5,071	73,802	170		10,974	5,842	50,694	4,174
June	59,804	11,589	73,694	2,879	1,913	5,157	78,120	419		7,974	4,033	50,000	3,714
July	60,624	9,874	75,294	4,882	719	5,203	78,483	460		11,974	1,929	50,000	2,949
Aug.	60,374	14,183	81,660	5,024	444	5,306	79,164	524		22,675	1,300	50,146	2,585
Sept.	60,566	12,173	84,617	1,494	604	5,365	68,213	457		31,440	1,419	50,040	2,423
Oct.	61,298	13,744	79,248	882	292	5,418	59,003	358		36,132	1,373	50,000	3,097
Nov. 7	61,083	13,741	74,830	638	225	5,415	54,632	399		36,132	1,412	50,000	2,501
14	61,780	15,129	69,053	499	364	5,436	41,104	235		46,182	1,419	50,222	2,266
21	63,203	12,620	70,357	343	347	5,443	38,170	629		46,182	1,478	52,763	2,365

\* On and after 20th August, 1949, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

\* Prior to 1950 the figures for "Other Exchange" are included under "Other Assets".

† Held temporarily pending transfer to Wool Rentention Accounts at trading banks. See text page 19 of February, 1951, issue.

## RESERVE BANK'S ASSETS



\* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

## II—TRADING BANKS

(£N.Z. thousands)

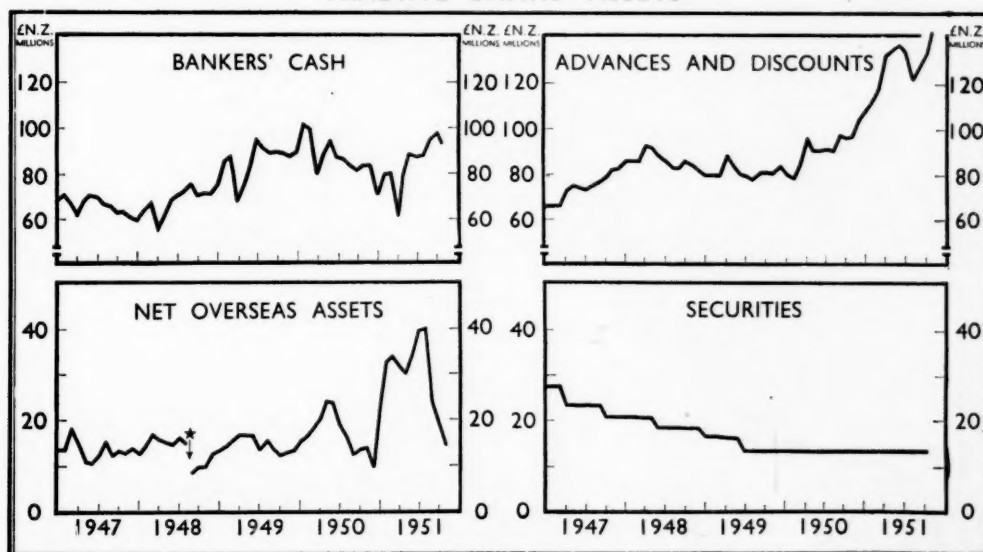
## 1. Liabilities and Assets

LIABILITIES AND ASSETS										
Average of Monthly Figures:	LIABILITIES (in New Zealand)				ASSETS					Unexercised Overdraft Authorities
	Demand	Time		Total Demand and Time Liabilities	Bankers' Cash*	Net O'seas Assets	Securities		Advances and Discounts	
		Wool Retention Accounts†	Other				Govt.	Other		
1944	88,644		30,480	119,125	39,384	11,938	36,141	2,424	46,806	37,120
1945	99,836		31,634	131,470	52,402	13,647	29,335	2,473	51,618	40,274
1946	117,071		34,414	151,485	67,794	12,541	26,168	2,293	58,342	45,041
1947	128,115		37,870	165,984	66,041	13,295	20,913	2,124	76,247	46,669
1948*	138,211		40,403	178,614	68,814	13,464	16,953	1,942	86,470	50,650
1949	150,699		39,016	189,715	86,120	14,526	12,856	1,813	81,981	57,686
1950	167,526		39,787	207,313	86,674	17,362	11,730	1,677	94,065	64,178
Last Wednesday in Month:										
1950—Oct.	162,324		40,094	202,418	83,610	13,927	11,730	1,646	97,087	67,689
Nov.	164,530		39,827	204,357	83,751	9,670	11,730	1,636	105,113	66,274
Dec. 20	186,616		39,538	226,153	70,339	22,013	11,730	1,634	108,979	71,347
1951—Jan.	194,692	784	39,805	235,281	79,759	32,482	11,730	1,590	112,617	72,294
Feb.	193,039	4,879	39,163	237,080	80,156	34,053	11,715	1,576	118,287	75,416
Mar.	193,709	9,644	39,770	243,124	60,784	31,504	11,715	1,574	133,271	70,364
Apr.	202,906	13,485	40,074	256,466	77,953	30,000	11,715	1,545	135,921	73,703
May	210,769	16,441	40,302	267,512	87,423	34,018	11,715	1,531	137,636	75,732
June	211,864	18,039	39,449	269,353	86,492	39,492	11,715	1,529	132,743	76,425
July	205,822	21,356	38,659	265,837	87,506	40,059	11,715	1,517	121,428	78,433
Aug.	187,780	25,934	39,199	252,913	93,920	23,712	11,715	1,502	127,001	73,216
Sept.	194,575	29,962	39,781	264,317	97,276	18,802	11,715	1,499	133,030	70,061
Oct.	188,055	30,736	41,093	259,884	91,572	14,108	11,715	1,495	143,227	67,347

\* Bankers' Cash includes Notes and Coin, and Balances at Reserve Bank. † See text (page 19 of February, 1951, issue)

\* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

## TRADING BANKS' ASSETS



\* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

## II-TRADING BANKS

### 2. Classification of Advances

NOVEMBER, 1951

(N.Z. thousands)

Published by courtesy of the Associated Banks

Last Wednesday in month	1948	1949	1950		1951		
	September	September	September	December	March	June	September
1. FARMERS:							
(a) Mainly Dairy	8,204	7,665	8,550	8,254	7,932	9,575	10,136
(b) Mainly Wool	6,177	6,090	5,317	5,776	5,397	5,793	5,772
(c) Mainly Meat	1,377	1,344	1,119	1,134	1,057	910	899
(d) Mainly Agri-cultural	719	706	747	804	805	906	942
(e) Mixed	4,902	4,506	4,087	4,393	3,962	4,182	4,204
2. INDUSTRIES	21,378	20,311	19,820	20,362	19,154	21,367	21,952
ALLIED TO PRIMARY PRODUCTION:							
(a) Dairy Co's., Factories, etc.	4,333	4,109	4,202	1,471	730	1,313	4,614
(b) Freez. Works, Meat Co's., etc.	524	758	821	1,496	13,879	16,860	5,215
(c) Woollen Mills	954	547	935	742	2,070	893	1,629
(d) Wool Buyers	909	1,002	1,165	10,632	11,161	5,442	4,504
(e) Other	3,849	3,452	4,314	3,548	4,348	4,449	4,245
	10,568	9,868	11,435	17,888	32,188	28,957	20,207
3. OTHER MANUFACTURING & PRODUCTIVE INDUSTRIES:	13,343	13,309	15,796	17,137	20,477	19,765	21,678
4. MERCHANTS, WHOLESALERS:							
(a) Mainly Imp'trs	5,844	4,848	6,761	8,013	10,663	10,225	10,826
(b) Others	2,575	2,329	3,012	2,991	3,129	3,135	3,724
	8,419	7,177	9,773	11,004	13,792	13,360	14,549
5. RETAILERS:	8,500	7,059	9,857	10,150	11,347	11,932	14,610
6. TRANSPORT:							
(a) Shipping	116	441	606	644	622	503	394
(b) Other	1,639	1,544	2,039	2,193	2,442	2,607	2,731
	1,755	1,985	2,645	2,837	3,064	3,110	3,125
7. ALL OTHERS:							
(a) Local Bodies, M'pal Authorities, Public Utility Concerns, etc.	1,739	1,734	1,942	2,325	1,566	2,148	2,243
(b) Stock & Station Agents	1,536	1,391	1,162	956	1,437	954	1,768
(c) Hotels (Public & Private), R'tants, etc.	2,275	2,141	2,509	2,725	2,570	2,646	2,772
(d) Entertainment Concerns	395	158	238	229	274	198	267
(e) Financial Co's. Societies, etc.	1,911	1,817	2,259	1,895	2,454	2,121	1,913
(f) Religious and Charitable	257	242	312	353	425	460	465
(g) Professional	1,896	1,787	2,158	2,277	2,778	2,841	2,659
(h) Private Individuals	8,200	8,214	11,026	13,057	14,563	15,794	15,997
(i) Miscellaneous	3,785	3,294	4,141	4,209	4,643	5,034	5,612
	21,994	20,778	25,747	28,026	30,710	32,196	33,696
TOTAL ADVANCES	85,958	80,487	95,073	107,403	130,732	130,686	129,817

### III—FOREIGN EXCHANGE

#### 1. Net Overseas Assets (Revised Series)\*

(£N.Z. thousands)

Last Wednesday in Month:	1948	1949			1950			1951		
	Total	Reserve Bank	Trading Banks	Total	Reserve Bank	Trading Banks	Total	Reserve Bank	Trading Banks	Total
Jan.	84,819	50,770	14,038	64,809	46,862	16,498	63,360	58,413	32,482	90,895
Feb.	94,240	54,329	15,536	69,865	49,179	18,125	67,304	65,198	34,053	99,251
Mar.	89,636	58,227	16,749	74,975	54,076	20,100	74,175	68,254	31,504	99,758
Apr.	95,551	60,998	16,730	77,728	58,362	23,924	82,285	72,410	30,000	102,410
May	97,296	65,652	16,598	82,250	65,607	23,634	89,241	80,410	34,018	114,428
June	100,017	66,364	13,623	79,987	68,411	18,605	87,016	83,824	39,492	123,316
July	100,344	62,756	15,281	78,037	67,340	16,169	83,509	83,454	40,059	123,513
Aug.	78,568*	58,312	13,435	71,747	66,099	12,302	78,402	94,150	23,712	117,862
Sept.	72,804	54,832	11,166	65,998	57,635	13,374	71,009	91,914	18,802	110,716
Oct.	66,487	49,474	12,691	62,165	54,916	13,927	68,843	83,855	14,108	97,963
Nov.	63,138	46,961	13,141	60,102	53,871	9,670	63,541			
Dec.	66,052†	44,418†	15,320†	59,738†	50,971†	22,013†	72,984†			

\* Foreign exchange and overseas investments held by the New Zealand banking system in respect of New Zealand business, less overseas liabilities. The Reserve Bank figures include not only sterling exchange as formerly, but also other foreign exchange holdings and overseas investments. † Wednesday before Christmas.

\* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

(£N.Z. thousands)

#### 2. Foreign Exchange Transactions of New Zealand Banking System

Calendar Month	1950					1951				
	RECEIPTS		PAYMENTS		Balance of Transactions	RECEIPTS		PAYMENTS		Balance of Transactions
	Exports	Other	Imports*	Other		Exports	Other	Imports*	Other	
Jan.	18,249	1,744	12,238	2,318	+ 5,437	30,042	2,125	13,938	3,027	+15,202
Feb.	17,500	1,657	12,749	3,133	+ 3,274	26,044	1,509	16,207	2,813	+ 8,532
Mar.	22,648	1,430	13,066	4,365	+ 6,647	15,546	2,188	14,773	2,485	+ 476
April	17,582	1,445	9,403	2,754	+ 6,870	18,810	1,544	13,428	2,973	+ 3,953
May	22,079	1,834	14,099	3,272	+ 6,543	23,626	1,484	12,765	2,357	+ 9,988
June	14,186	1,699	15,130	3,392	- 2,637	26,862	1,995	12,976	3,220	+12,660
July	11,685	1,817	11,994	3,701	- 2,194	21,429	2,007	15,498	7,067	+ 871
Aug.	10,486	1,980	14,566	4,040	- 6,140	17,083	2,135	21,287	3,425	- 5,494
Sept.	9,738	1,138	16,011	1,466	- 6,601	15,322	1,771	21,842	2,524	- 7,273
Oct.	11,609	1,278	14,338	3,326	- 4,777	19,707	2,025	26,959	3,479	- 8,706
Nov.	12,666	1,539	15,476	2,113	- 3,384					
Dec.	26,160	1,426	13,695	2,474	+ 11,417					
<b>Total</b>	<b>194,588</b>	<b>18,988</b>	<b>162,767</b>	<b>36,354</b>	<b>+ 14,455</b>					

\* Includes estimated payments for Government imports.

#### IV—GROSS CAPITAL INVESTMENT IN NEW ZEALAND

##### (Excluding Change in Value of Stocks)

(£ millions)

Source: Appendices to the Journals, House of Representatives, B-5

Year ended March	Gross National Product	PRIVATE				GOVERNMENT				Total* Gross Investment	Per Cent Gross National Product*
		Building	Other	Total	Per Cent G.N.P. †	Central Government	Local Authorities	Total	Per Cent G.N.P.		
1929	203	6	5	11	5	9	5	14	7	25	12
1933	116	1	3	4	3	3	3	6	5	10	9
1938	215	6	9	15	7	12	5	17	8	32	15
1939	229	7	9	16	7	16	6	22	10	38	17
1940	249	6	8	14	6	16	6	22	9	36	14
1941	269	6	7	13	5	12	5	17	6	30	11
1942	291	5	7	12	4	9	5	14	5	26	9
1943	335	2	5	7	2	6	3	9	3	16	5
1944	372	5	9	14	4	10	4	14	4	28	8
1945	378	8	13	21	6	14	5	19	5	40	11
1946	401	13	14	27	7	17	5	22	5	49	12
1947	419	20	17	37	9	21	6	27	6	64	15
1948	475	21	23	44	9	26	7	33	7	77	16
1949	481	22	24	46	10	32	8	40	8	86	18
1950	549	28	30	58	10	39	9	48	9	106	19
1951‡	659	37	34	71	11	40	11	51	8	122	19

† Excluding tramways and railways (included under "Government").

\* Excludes changes in value of stocks.

‡ Provisional.

## V—GOVERNMENT FINANCE

Table showing the ACTUAL receipts and expenditure of the CONSOLIDATED FUND and SOCIAL SECURITY FUND† for the year ended 31st March, 1951, compared with the ESTIMATED receipts and expenditure for the year ending 31st March, 1952

(£N.Z. thousands)

Source: Appendices to the Journals, House of Representatives, B-6

RECEIPTS	Actual for 1950-51	Estimated for 1951-52	EXPENDITURE	Actual for 1950-51	Estimated for 1951-52
<b>TAXATION :</b>			<b>PERMANENT APPROPRIATIONS :</b>		
Income Tax .....	59,442	76,000	Debt Services:		
Land Tax .....	1,043	1,000	Interest and Management .....	17,586	18,020
Social Security Charge .....	35,766	41,600	Repayment of Debt .....	10,593†	5,861
Customs Duties .....	23,600	28,000	Other Permanent Appropriations .....	3,708	3,856
Beer Duty .....	5,036	5,000	<b>ANNUAL VOTES :</b>		
Sales Tax .....	16,827	17,500	Social Services:		
Highways Tax .....	3,997	4,000	Health .....	10,247	11,500
Stamp and Death Duties .....	12,129	12,700	Education .....	13,346	16,000
Film Hire Tax .....	107	100	War and Other Pensions .....	5,597	6,680
Total Taxation .....	157,947	185,900	Defence:		
<b>INTEREST RECEIPTS</b> .....	6,566	7,000	Construction and Maintenance .....	1,308	2,300
<b>PROFITS FROM TRADING UNDERTAKINGS</b> .....	1,770	1,700	Navy, Army, Air .....	13,942	22,700
<b>DEPARTMENTAL</b> .....	13,240	13,500	Rehabilitation .....	2,624†	1,968
<b>MISCELLANEOUS RECEIPTS:</b>			Stabilisation .....	9,372	15,521
Social Security Fund .....	116	100	Maintenance:		
<b>Total</b> .....	179,639	208,200	Public Works and Services* .....	6,751	7,660
			Highways .....	4,045	4,300
			Development of Primary and Sec- ondary Industries .....	9,763	11,853
			Other Annual Votes .....	14,986	17,721
			<b>SOCIAL SECURITY:</b>		
			Administration Expenses .....	848	948
			Emergency Benefits .....	292	350
			Special Assistance .....	—	200
			Hospital Benefits:		
			Maternity .....	885	919
			Hospital .....	2,019	2,145
			Medical .....	2,661	2,800
			Pharmaceutical .....	2,097	2,269
			Supplementary .....	1,061	1,136
			Monetary Benefits:		
			Age .....	17,151	19,000
			Invalids' .....	1,429	1,550
			Widows' .....	2,142	2,350
			Sickness .....	1,042	1,175
			Family .....	15,289	16,000
			Universal Superannuation .....	2,336	4,050
			Other Monetary Benefits .....	167	178
<b>Total</b> .....	<b>173,290†</b>	<b>201,010</b>			

‡ This table excludes transfers from the Consolidated Fund to the Social Security Fund: Actual 1950-51, £14,000,000; Estimated 1951-52, £14,000,000.

\* Excluding defence construction and maintenance.

† Including payments from the balance of the War Expenses Account (closed on 1st April, 1950) as follows: Repayment of Debt £1,865,374; Rehabilitation £500,000.

## VI-NEW ZEALAND GOVERNMENT RAILWAYS

## 1. Revenue and Expenditure (Whole Undertaking)

(£N.Z. thousands)

Source: Appendices to the Journals, House of Representatives, D-2

Year ended 31st March	1945	1946	1947	1948	1949	1950	1951
<b>Revenue:</b>							
RAILWAY OPERATION:							
Passenger .....	3,504	3,913	3,254	2,688	2,759	2,848	2,663
Parcels, Luggage, Mails .....	411	427	441	553	561	481	533
Goods .....	8,261	8,516	8,904	10,487	11,747	12,434	14,979
Miscellaneous .....	272	250	226	236	272	299	326
<b>TOTAL-RAILWAY OPERATION</b> .....	<b>12,448</b>	<b>13,105</b>	<b>12,824</b>	<b>13,964</b>	<b>15,339</b>	<b>16,062</b>	<b>18,500</b>
SUBSIDIARY SERVICES:							
Road Motor .....	820	1,099	1,556	1,742	1,910	2,034	2,108
Other .....	1,191	1,241	1,301	1,365	1,349	1,445	1,478
<b>TOTAL-WHOLE UNDERTAKING</b> .....	<b>14,460</b>	<b>15,445</b>	<b>15,680</b>	<b>17,071</b>	<b>18,598</b>	<b>19,541</b>	<b>22,085</b>
<b>Working-Expenses:</b>							
RAILWAY OPERATION:							
Maintenance: Rolling-stock .....	2,840	3,055	3,241	3,299	3,885	3,889	4,218
" Way, Works, Signals .....	2,583	2,900	2,842	2,955	3,387	3,506	3,739
Transportation: Locomotive .....	2,474	2,628	2,996	3,787	4,033	4,065	4,606
" Traffic .....	3,461	3,619	4,139	4,550	4,956	5,355	5,615
General charges .....	340	348	426	499	527	545	548
<b>TOTAL-RAILWAY OPERATION</b> .....	<b>11,697</b>	<b>12,550</b>	<b>13,645</b>	<b>15,090</b>	<b>16,788</b>	<b>17,361</b>	<b>18,725</b>
SUBSIDIARY SERVICES:							
Road Motor .....	739	959	1,389	1,667	1,883	2,104	2,160
Other .....	824	876	911	954	1,029	1,132	1,194
<b>TOTAL-WHOLE UNDERTAKING</b> .....	<b>13,260</b>	<b>14,385</b>	<b>15,944</b>	<b>17,711</b>	<b>19,701</b>	<b>20,597</b>	<b>22,080</b>
RAILWAY OPERATION:							
Net revenue .....	751	555	— 821*	— 1,126*	— 1,449*	— 1,299*	— 225*
Percentage of Working-Expenses to Revenue (%) .....	93.96	95.77	106.40	108.06	109.45	108.09	101.22
WHOLE UNDERTAKING:							
Net revenue .....	1,199	1,060	— 264†	— 640†	— 1,103†	— 1,056†	6
Percentage of Working-Expenses to Revenue (%) .....	91.71	93.14	101.69	103.75	105.93	105.40	99.98

\* Loss.

† Loss recovered from vote, "Economic Stabilisation".

## 2. Freight Carried by Railways

(Tons thousands)

Year Ended 31st March	Agricultural and Pastoral					Timber and Firewood	Non-Metallic Minerals			Miscellaneous	Total
	Grains, Fruit, Veggies., etc.	Dairy Produce	Meats, Fish & Livestock	Wool	Fertilizers		Coal	Benzine and Kerosene	Other		
1937	588	255	885	159	1,042	531	1,632	154	202	1,365	6,813
1938	585	256	972	159	1,368	579	1,687	175	236	1,499	7,516
1939	517	231	940	172	1,254	578	1,764	188	298	1,596	7,539
1940	556	215	930	168	1,430	587	1,756	195	229	1,608	7,674
1941	596	232	1,028	165	1,629	664	2,034	178	203	1,696	8,426
1942	589	274	1,125	188	1,377	653	2,086	196	181	1,805	8,474
1943	696	288	1,214	222	1,149	758	2,049	180	202	2,128	8,887
1944	757	252	1,196	219	1,240	757	2,084	202	197	2,124	9,027
1945	752	255	1,194	205	1,462	715	2,084	205	208	1,936	8,954
1946	795	250	1,255	250	1,457	692	2,097	221	224	1,971	9,210
1947	733	239	1,222	233	1,647	701	2,062	261 <sup>1</sup>	203	2,028	9,329
1948	755	260	1,201	222	1,534	793	2,084	298	243	2,124	9,524
1949	736	277	1,157	220	1,535	860	2,131	305	268	2,223	9,666
1950	689	294	1,131	226	1,637	882	2,088	330	290	2,337	9,948
1951	652	297	1,046	219	1,654	922	1,869	357	236	2,362	9,616

## VII—RETAIL PRICE INDEX NUMBERS

NOVEMBER, 1951

## 1. New Zealand Consumers' Price Index

Base: Weighted Average twenty-one towns, first quarter, 1949 = 1000.

Source: Census and Statistics Department

Month	Food				Rent	Other Housing	Fuel and Lighting	Clothing	Footwear	Miscellaneous	All Groups
	Meat and Fish	Fruits, Vegetables and Eggs	Other Foods	All Food							
1950—Jan.	1066	1061	1010	1034	1008	1032	1042	995	1069	1011	1020
Feb.	1063	1053	1010	1032			1042				
Mar.	1071	1029	1011	1030			1042				
Apr.	1086	1043	1028	1045			1041				
May	1100	987	1151	1102	1008	1032	1101	1016	1156	1015	1052
June	1113	1061	1192	1144			1130				
July	1136	1087	1200	1159			1193				
Aug.	1145	1090	1206	1165			1201				
Sept.	1171	1095	1205	1172	1021	1032	1203	1033	1179	1027	1087
Oct.	1197	1122	1234	1200			1204				
Nov.	1209	1039	1237	1186			1210				
Dec.	1211	1132	1242	1210			1210				
1951—Jan.	1213	1117	1244	1208	1039	1072	1211	1088	1216	1046	1121
Feb.	1230	1050	1245	1198			1211				
Mar.	1252	1048	1252	1206			1214				
Apr.	1285	1130	1272	1243			1229				
May	1291	1159	1292	1262	1039	1072	1238	1175	1245	1086	1169
June	1308	1242	1299	1288			1244				
July	1329	1265	1304	1301			1276				
Aug.	1424	1269	1308	1327			1277				
Sept.	1442	1365	1265	1330	1065	1072	1233	1228	1289	1112	1207
Oct.	1467	1400	1265	1343			1231				

## 2. Retail Prices in New Zealand, United Kingdom, United States of America, Canada, Australia, South Africa, and India.

Base: 1937 = 100

Source: International Monetary Fund

Calendar Year	New Zealand	United Kingdom	U.S.A.	Canada*	Australia	South Africa	India†
1939	107	104	97	100	105	104	100
1942	120	143	113	115	125	122	149
1944	125	151	122	117	129	133	223
1945	127	152	125	118	129	137	223
1946	128	154	136	123	131	139	243
1947	132	163	155	135	136	145	263
1948	142	174	167	154	148	153	286
1949	145	179	165	160	162	159	289
1950	153	184	167	165	179	165	300
Monthly							
1950—Jan.	146	182	164	160	171	160	292
Feb.		182	163	160		161	289
Mar.		182	164	163		162	286
Apr.		184	164	163		163	289
May	151	184	165	163	176	165	294
June		184	166	165		167	294
July		184	167	166		166	300
Aug.		182	169	168		164	303
Sept.	156	184	170	169	180	165	303
Oct.		186	171	169		168	300
Nov.		187	172	169		168	294
Dec.		187	174	169		171	291
1951—Jan.	161	189	177	171	196	172	300
Feb.		190	179	174		172	303
Mar.		192	180	178		174	311
Apr.		195	180	180		175	314
May	168	200	181	180	210	177	314
June		202	180	183		178	317
July		203	181	185		178	314
Aug.		205	181	188		178	329
Sept.	173	207	181	189			309

\* I.M.F. index recalculated to base 1937 = 100.

† I.M.F. index for Bombay, recalculated to base 1937 = 100.

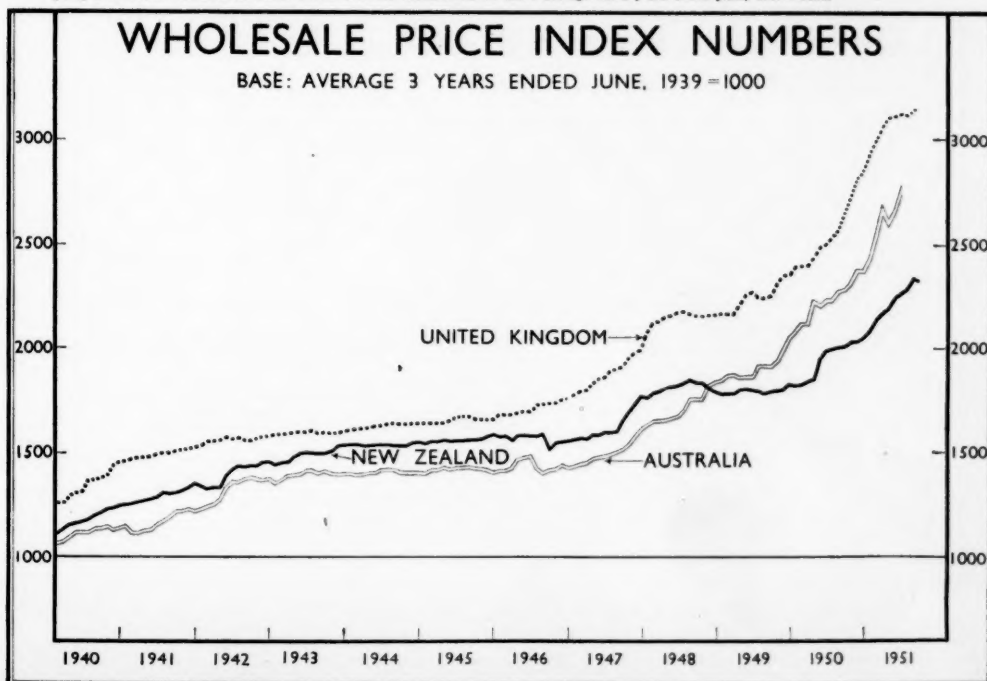
# VIII—WHOLESALE PRICE INDEX NUMBERS IN NEW ZEALAND, AUSTRALIA AND THE UNITED KINGDOM

Base: Average 3 years ended June, 1939=1000.

Year ended June	New Zealand*					Australia†	United Kingdom‡
	Consumers' Goods	Producers' Materials	Imported Items	Locally Produced	All Groups		
1939	1023	1020	1014	1031	1022	1011	959
1942	1355	1316	1419	1206	1334	1242	1530
1943	1483	1419	1591	1233	1447	1373	1576
1944	1560	1483	1696	1252	1517	1396	1603
1945	1581	1506	1725	1264	1540	1405	1638
1946	1604	1538	1752	1292	1567	1412	1673
1947	1629	1508	1709	1465	1561	1429	1776
1948	1774	1696	1899	1548	1730	1588	2032
1949	1803	1799	1976	1546	1801	1809	2179
1950	1828	1840	1980	1625	1835	2054	2363
1951	2060	2131	2209	1943	2101	2461	2876
Monthly:							
1950—Sept.	1978	2032	2111	1861	2010	2282	2656
Oct.	1992	2054	2117	1898	2028	2317	2728
Nov.	2010	2049	2119	1908	2033	2374	2821
Dec.	2019	2068	2133	1924	2048	2374	2853
1951—Jan.	2030	2125	2181	1945	2085	2430	2928
Feb.	2082	2176	2245	1977	2136	2529	2983
Mar.	2102	2221	2281	2010	2171	2677	3061
Apr.	2164	2225	2333	2006	2199	2611	3112
May	2183	2287	2391	2010	2242	2664	3121
June	2204	2309	2416	2042	2264	2770	3133
July	2245	2311	2426	2075	2284	2794	3122
Aug.	2315	2357	2469	2152	2339		3156
Sept.	2312	2330	2476	2101	2323		

\*Government Statistician's Index Numbers of Wholesale Prices recalculated to base: average three years ended June, 1939=1000.

†Commonwealth Statistician's Index Number of Wholesale Prices of basic materials and foodstuffs as given for base: average three years ended June, 1939=1000. ‡Board of Trade Index Number recalculated to base: average three years ended June, 1939=1000.



Note: The above tables and graph merely indicate the trend of prices within each of the countries named. They are not intended to provide a comparison of price levels in the different countries.

# IX—UNITED STATES OF AMERICA Selected Business Indicators

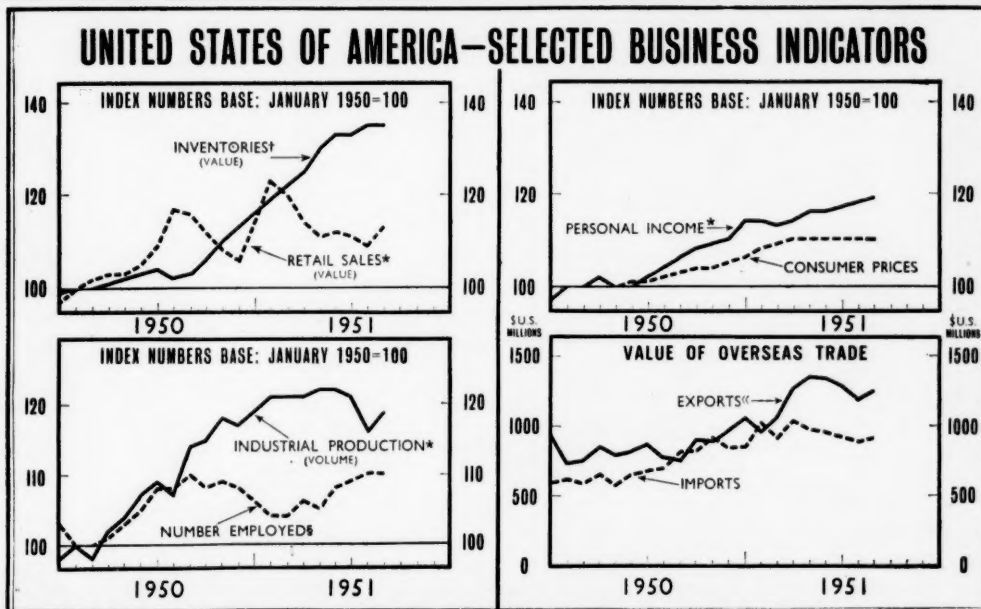
NOVEMBER, 1951

Source:—U.S. Dept. of Commerce

Month	Industrial Production (Volume) 1935-39 = 100	Index of Construct. Contracts (Value) Awarded 1923-25 = 100	Personal Income (Annual Rate) \$000m. *	Consumer Credit \$000m. †	Employed‡ millions	Unem- ployed millions	Index of Consumers' Prices 1935-39 = 100	Inventor- ies‡ \$000m.	Retail Sales \$000m. *	Imports (For Con- sumption) \$millions	Exports (U.S. Mer- chandise) \$millions ‡
1950—Jan.	183	242	214.6	16.4	56.9	4.5	168.2	52.0	11.1	623	732
Mar.	187	275	219.3	16.3	57.6	4.1	168.4	52.5	11.4	660	851
Jun.	199	291	219.0	17.7	61.5	3.4	170.2	54.2	12.1	679	866
Sept.	211	321	231.5	19.3	61.2	2.3	174.6	55.1	12.4	828	898
Dec.	218	332	244.4	20.1	60.3	2.2	178.8	60.4	12.6	858	1,052
1951—Jan.	221	333	243.6	19.9	59.0	2.5	181.5	62.1	13.6	1,018	957
Feb.	221	323	243.3	19.5	58.9	2.4	183.8	63.4	13.3	909	1,060
Mar.	222	304	245.5	19.4	60.2	2.1	184.5	65.2	12.6	1,033	1,265
Apr.	223	373	249.0	19.1	60.0	1.7	184.6	67.4	12.3	965	1,353
May	223	361	249.8	19.2	61.2	1.6	185.4	69.0	12.4	946	1,339
Jun.	221	374	251.0	19.3	61.8	2.0	185.2	69.4	12.3	914	1,279
July	213	303	252.4	19.1	62.5	1.9	185.5	70.2	12.1	886	1,179
Aug.	218	290	254.4	19.3	62.6	1.6	185.5	70.0	12.5	912	1,254

Index Numbers, Base: January, 1950 = 100.

1950—Jan.	100	100	100	100	100	100	100	100	100	100	100
Mar.	102	114	102	99	101	91	100	101	103	106	116
Jun.	109	120	102	108	108	76	101	104	109	109	118
Sept.	115	133	108	118	108	51	104	106	112	133	123
Dec.	119	137	114	123	106	49	106	116	114	138	144
1951—Jan.	121	138	114	121	104	56	108	119	123	163	131
Feb.	121	133	113	119	104	53	109	122	120	146	145
Mar.	121	126	114	118	106	47	110	125	114	166	173
Apr.	122	154	116	116	105	38	110	130	111	155	185
May	122	149	116	117	108	36	110	133	112	152	183
Jun.	121	155	117	118	109	44	110	133	111	147	175
July	116	125	118	116	110	42	110	135	109	142	161
Aug.	119	120	119	118	110	36	110	135	113	146	171



† Includes finished goods held by retailers, wholesalers and manufacturers, plus materials in stock and goods in process of production.

‡ Includes self-employed, unpaid family, and domestic workers. \* Adjusted for seasonal variations.

‡ Includes instalment credit (sale credit, and cash loans), charge accounts, single-payment loans and service credit.

‡ From September, 1950, include shipments under Mutual Defence Assistance Programme.

N.B.—All recent figures are subject to revision.

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